

AUDIT REPORT

RICE LAKE RECREATION SERVICE DISTRICT
Minot, North Dakota

For the Year Ended December 31, 2018

RATH & MEHRER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

RICE LAKE RECREATION SERVICE DISTRICT
Minot, North Dakota

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RICE LAKE RECREATION SERVICE DISTRICT
Minot, North Dakota

OFFICIALS

| | |
|----------------|----------------------|
| Mary Ann Blade | Chairman |
| Pam Haugen | Vice-Chairman |
| Linda Anderson | Secretary |
| Keith Burlison | Board Member |
| Jarid Lundeen | Board Member |
| Brian Thordahl | Board Member |
| Bruce Haskins | Treasurer/Accountant |

Rath & Mehrer

Certified Public Accountants

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425 North Fifth Street
Bismarck, ND 58501

INDEPENDENT AUDITOR'S REPORT

Governing Board
Rice Lake Recreation Service District
Minot, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of each major fund of the Rice Lake Recreation Service District, Minot, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the district's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the district's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the district's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of each major fund of the Rice Lake Recreation Service District, Minot, North Dakota, as of December 31, 2018, and the respective changes in modified cash basis financial position; and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2019 on our consideration of the district's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the district's internal control over financial reporting and compliance.

The Rice Lake Recreation Service District has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Rath and Mehrer

Rath and Mehrer, P.C.

Bismarck, North Dakota

May 10, 2019

RICE LAKE RECREATION SERVICE DISTRICT
Minot, North Dakota

Statement of Net Position - Modified Cash Basis

December 31, 2018

| | Major Funds | | | Total |
|----------------------------------|-------------------|----------------|-------------------------|----------------|
| | General Operating | Sewer Project | Permanent Flood Control | |
| ASSETS: | | | | |
| Cash | 148,642.06 | 73,522.91 | 4,837.82 | 227,002.79 |
| <i>INVESTMENTS</i> | | | | |
| LIABILITIES: | | | | |
| Long-Term Liabilities: | | | | |
| Due Within One Year: | | | | |
| Special Assessment Bonds Payable | | 146,000.00 | | 146,000.00 |
| Due After One Year: | | | | |
| Bank Loans Payable | | 165,311.21 | 394,622.31 | 559,933.52 |
| Special Assessment Bonds Payable | | 1,048,000.00 | | 1,048,000.00 |
| Total Liabilities | 0.00 | 1,359,311.21 | 394,622.31 | 1,753,933.52 |
| NET POSITION: | | | | |
| Unrestricted | 148,642.06 | (1,285,788.30) | (389,784.49) | (1,526,930.73) |

The accompanying notes are an integral part of these financial statements.

RICE LAKE RECREATION SERVICE DISTRICT
Minot, North Dakota

Statement of Revenues, Expenses and Changes in Net Position - Modified Cash Basis

For the Year Ended December 31, 2018

| | Major Funds | | | Total |
|---|----------------------|-----------------------|-------------------------------|-----------------------|
| | General Operating | Sewer Project | Permanent Flood Control | |
| <u>Operating Revenue:</u> | | | | |
| Special Assessments | 133,237.40 | | | 133,237.40 |
| Miscellaneous | 4,063.12 | | | 4,063.12 |
| Total Operating Revenue | 137,300.52 | | | 137,300.52 |
| <u>Operating Expenses:</u> | | | | |
| Circle Sanitation - Refuse Charges | 15,028.00 | | | 15,028.00 |
| Verendye Electric - Utilities | 12,024.00 | | | 12,024.00 |
| Sewer Maintenance Contract | 8,600.00 | | | 8,600.00 |
| Bookkeeping Contract | 10,200.00 | | | 10,200.00 |
| Road Maintenance | 3,475.00 | | | 3,475.00 |
| Sewer Maintenance | 51,792.65 | | | 51,792.65 |
| Office Supplies | 3,523.52 | | | 3,523.52 |
| Miscellaneous | 8,742.64 | | | 8,742.64 |
| Total Operating Expenses | 113,385.81 | | | 113,385.81 |
| Operating Income | 23,914.71 | | | 23,914.71 |
| <u>Non-Operating Revenue (Expenses):</u> | | | | |
| Interest Income | 539.90 | 998.37 | 15.76 | 1,554.03 |
| Special Assessments | 174,267.72 | 211,594.52 | 56,321.13 | 442,183.37 |
| Special Assessments Refund | (2,392.48) | | | (2,392.48) |
| Debt Service - Interest Payments | (2,733.14) | (35,900.00) | (21,249.93) | (59,883.07) |
| - Administrative Fees | | (16,123.84) | | (16,123.84) |
| Transfers In | | 920.48 | 1,148.04 | 2,068.52 |
| Transfers Out | (2,068.52) | | | (2,068.52) |
| Total Non-Operating Revenue (Expenses) | 167,613.48 | 161,489.53 | 36,235.00 | 365,338.01 |
| Change in Net Position | 191,528.19 | 161,489.53 | 36,235.00 | 389,252.72 |
| Net Position - January 1 | (42,886.13) | (1,447,277.83) | (426,019.49) | (1,916,183.45) |
| Net Position - December 31 | 148,642.06 | (1,285,788.30) | (389,784.49) | (1,526,930.73) |

The accompanying notes are an integral part of these financial statements.

RICE LAKE RECREATION SERVICE DISTRICT
Minot, North Dakota

Statement of Cash Flows - Modified Cash Basis

For the Year Ended December 31, 2018

| | Major Funds | | | Total |
|--|----------------------|------------------|-------------------------------|--------------|
| | General Operating | Sewer Project | Permanent Flood Control | |
| <u>Cash flows from operating activities:</u> | | | | |
| Cash received from customers and users | 137,300.52 | | | 137,300.52 |
| Cash paid to suppliers and employees | (113,385.81) | | | (113,385.81) |
| Net cash provided (used) by operating activities | 23,914.71 | | | 23,914.71 |
| <u>Cash flows from noncapital financing activities:</u> | | | | |
| Transfers In | | 920.48 | 1,148.04 | 2,068.52 |
| Transfers Out | (2,068.52) | | | (2,068.52) |
| Net cash provided (used) by noncapital financing activities | (2,068.52) | 920.48 | 1,148.04 | |
| <u>Cash flows from capital and related financing activities:</u> | | | | |
| Special assessments | 174,267.72 | 211,594.52 | 56,321.13 | 442,183.37 |
| Special assessments refund | (2,392.48) | | | (2,392.48) |
| Principal payment on bank loans | | (16,417.80) | (37,101.83) | (53,519.63) |
| Principal payment on general obligation bonds | (169,672.13) | | | (169,672.13) |
| Principal payment on special assessments bonds | | (242,000.00) | | (242,000.00) |
| Interest Payments | (2,733.14) | (35,900.00) | (21,249.93) | (59,883.07) |
| Administrative fees | | (16,123.84) | | (16,123.84) |
| Net cash provided (used) by capital and related financing activities | (530.03) | (98,847.12) | (2,030.63) | (101,407.78) |
| <u>Cash flows from investing activities:</u> | | | | |
| Interest income | 539.90 | 998.37 | 15.76 | 1,554.03 |
| Net increase (decrease) in cash | 21,856.06 | (96,928.27) | (866.83) | (75,939.04) |
| Cash, January 1 | 126,786.00 | 170,451.18 | 5,704.65 | 302,941.83 |
| Cash, December 31 | 148,642.06 | 73,522.91 | 4,837.82 | 227,002.79 |

The accompanying notes are an integral part of these financial statements.

RICE LAKE RECREATION SERVICE DISTRICT
Minot, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Rice Lake Recreation Service District have been prepared on a modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

For financial reporting purposes, the Rice Lake Recreation Service District has included all funds and has considered all potential component units for which the district is financially accountable, and other organizations for which the nature and significance of their relationships with the district are such that exclusion would cause the district's financial statements to be misleading or incomplete. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the district to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the district.

Based on these criteria, there are no component units to be included within the Rice Lake Recreation Service District as a reporting entity.

B. Fund Accounting

The district uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. The following funds are used by the district:

General Fund - The general fund is the general operating fund of the district. It is used to account for all financial resources except those required to be accounted for in another fund.

Sewer Project Fund - The sewer project fund accounts for federal grants and loans received for the construction of a sanitary sewer system and the collection of special assessments to retire the related debt.

Permanent Flood Control - The permanent flood control fund will account for loans and grants received for the construction of permanent flood control and the collection of special assessments to retire the related debt.

C. Basis of Accounting

The financial statements are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position, revenues and expenses when they result from cash transactions. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America.

D. Cash

Cash includes amounts in demand deposits and money market accounts.

E. Fund Equity

Net Position - Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the service district or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments (i.e., funds restricted by state statute, unspent bond proceeds, grants earned but not spent or debt covenants. All other net position is reported as unrestricted.

Note 2 DEPOSITS

In accordance with North Dakota Statutes, the district maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investments companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district or any other political subdivision of the State of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or other securities approved by the banking board.

At December 31, 2018 the district's carrying amount of deposits was \$227,003 and the bank balance was \$227,003. Of the bank balance, \$227,003 was covered by Federal Depository Insurance.

Credit Risk

The district may invest idle funds as authorized in North Dakota Statutes, as follows:

- (1) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities or organizations created by an act of Congress.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (4) Obligations of the State.

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Concentration of Credit Risk

The district does not have a limit on the amount the district may invest in any one issuer.

Note 3 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2018, the following changes occurred in liabilities reported in the long-term liabilities:

| | <u>Balance</u> <u>January 1</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>December 31</u> | <u>Due Within</u> <u>One Year</u> |
|-----------------------|------------------------------------|------------------|------------------|--------------------------------------|--------------------------------------|
| Bank Loans | 613,453 | | 53,520 | 559,933 | |
| Gen. Obligation Bonds | 169,672 | | 169,672 | | |
| Special Assm't Bonds | 1,436,000 | | 242,000 | 1,194,000 | 146,000 |
| Total | <u>2,219,125</u> | | <u>465,192</u> | <u>1,753,933</u> | <u>146,000</u> |
| | ===== | ===== | ===== | ===== | ===== |

General Obligation Debt. General obligation debt is a direct obligation and pledges the full faith and credit of the government. The district has issued general obligation loans and bonds to provide funds for flood related expenses. General Obligation loans and bonds outstanding at December 31, 2018, are as follows:

Bank Loans Payable

| | |
|--|-------------------|
| \$576,510 Bank Loan through United Community Bank; interest is at 4.75%. | 394,622.31 |
| \$243,713 Bank Loan through United Community Bank; interest is at 4.75%. | 165,311.21 |
| Total Bank Loans Payable | <u>559,933.52</u> |
| | ===== |

These loans will be repaid as funds become available through the collection of special assessments.

Special Assessment Debt. The district has issued special assessment bonds to provide funds for the construction of a sanitary sewer system. Special assessment bonds outstanding at December 31, 2018, are as follows:

| | |
|---|-----------------------|
| \$2,813,537 Sanitary Sewer System Improvement Bonds of 2006 due in annual installments of \$146,000 to \$78,000 through September 2026; interest is at 2.5%. | 1,194,000.00 ===== |
|---|-----------------------|

The annual requirements to amortize the outstanding special assessment bond debt are as follows:

| <u>Year Ending</u> <u>December 31</u> | <u>Principal</u> | <u>Interest</u> |
|--|------------------------------|----------------------------|
| 2019 | 146,000.00 | 29,850.00 |
| 2020 | 150,000.00 | 26,200.00 |
| 2021 | 155,000.00 | 22,450.00 |
| 2022 | 158,000.00 | 18,575.00 |
| 2023 | 165,000.00 | 14,625.00 |
| 2024-2026 | 420,000.00 | 18,750.00 |
| Total | <u>1,194,000.00</u> ===== | <u>130,450.00</u> ===== |

Note 4 TRANSFERS

\$920.48 was transferred from the general fund to the sewer project fund and \$1,148.04 was transferred from the general fund to the permanent flood control fund. These transfers are listed as loans in the district's records but are shown as transfers in the modified-cash basis financial statements.

Note 5 RISK MANAGEMENT

The Rice Lake Recreation Service District is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The district pays an annual premium to NDIRF for its general liability insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability.

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Specializing in Governmental Auditing

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Ken Mehrer, CPA

425 North Fifth Street
Bismarck, ND 58501

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

Governing Board
Rice Lake Recreation Service District
Minot, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of each major fund of the Rice Lake Recreation Service District, Minot North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the district's basic financial statements, and have issued our report thereon dated May 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the district's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the district's internal control. Accordingly, we do not express an opinion on the effectiveness of the district's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the district's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items II-1 and II-2, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The district's response to the findings identified in our audit are described in the accompanying *Schedule of Findings and Responses*. The district's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the district's internal control or on compliance. This is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the district's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rath and Mehrer, P.C.

Bismarck, North Dakota

May 10, 2019

RICE LAKE RECREATION SERVICE DISTRICT
Minot, North Dakota

Schedule of Findings and Responses
For the Year Ended December 31, 2018

SECTION I - SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:
Major Funds

Unmodified-Modified Cash Basis

Internal control over financial reporting:

* Material weakness(es) identified? Yes No

* Significant deficiency(ies) identified? Yes None Reported

Noncompliance Material to financial
statements noted? Yes No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. Segregation of Duties

Condition: The district has one person responsible for most accounting functions.

Criteria: There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over assets of the district.

Effect: There is no segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger and prepare financial statements. This increases the risk of misstatement of the district's financial condition.

Recommendation: Due to the size of the district, it is not feasible to obtain proper separation of duties and no recommendation will be made.

Client Response: No response is considered necessary.

2. Financial Statement Preparation

Condition: The district's financial statements as of December 31, 2018 are prepared by the district's external auditors.

Criteria: A good system of internal controls requires the district to determine that the financial statements are prepared based on accounting principles generally accepted in the United States of America. This means that the district must maintain knowledge of current accounting principles and required financial statement disclosures.

Effect: A control system is not in place to determine that the financial statements are properly stated and in compliance with accounting principles generally accepted in the United States of America.

Recommendation: We recommend the district obtain the necessary knowledge of current accounting principles to prepare financial statements or outsource the preparation of its financial statements.

Client Response: It is not cost effective for the district to prepare its own financial statements.